



Control Number: 51812



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PROJECT NO. 51812



**ISSUES RELATED TO THE STATE
OF DISASTER FOR THE
FEBRUARY 2021 WINTER EVENT**

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**PUBLIC UTILITY COMMISSION
OF TEXAS**

PETITION FOR IMPLEMENTING APPROPRIATE REPRICING

City of Georgetown (Georgetown) requests the Public Utility Commission of Texas, (Commission) to direct the Electric Reliability Council of Texas (ERCOT) to immediately implement the recommendation of the Independent Market Monitor (IMM) on March 1, 2021 for operating days February 15 through February 20, 2021 and reprice all day-ahead ancillary services (AS) clearing prices to cap them at the System-Wide Offer Cap (SWCAP) of \$9,000 per MWh.¹ This will avoid irreparable harm to the Texas electric market, its participants, and ultimately consumers in the ERCOT market.

Georgetown can support the IMM recommendation² on March 4, 2021 for the Commission to direct ERCOT to correct the real-time prices from 0:00 February 18, 2021, to 09:00 February 19, 2021, to remove the inappropriate pricing intervention that occurred during that time period only if the financial Day-Ahead Market (“DAM”) is voided for the corresponding days – otherwise, citizens of Georgetown would pay an even greater cost from this repricing. The financial DAM is intricately tied to and used to hedge exposure to the Real-Time Market (RTM) so, if the RTM is repriced, the financial DAM outcomes become inconsistent with RTM and illogical. No rational way exists to reprice the DAM consistent with repricing the RTM. In other words, if the RTM is repriced as significantly as described in the IMM recommendation, the only appropriate resettlement is to void the corresponding DAM, settle all load, generation, and Congestion Revenue Rights (CRR) at RTM prices—this is exactly the same treatment as when there’s a DAM failure. The current ERCOT systems already have mechanisms in place to settle the market in the event of a DAM failure. Georgetown recommends the added protection of

¹ See Project. No. 51812, *Issues Related to the State Disaster for the February 2021 Winter Weather Event*, Potomac Economics, Ltd. Letter (Mar. 1, 2021).

² See Project. No. 51812, *Issues Related to the State Disaster for the February 2021 Winter Weather Event*, Potomac Economics, Ltd. Letter (Mar. 4, 2021).

ensuring that no generation or load resource or importer of power lose money as a result of the RTM repricing and voiding of the DAM through the existing ERCOT dispute process. If the DAM is voided, Georgetown supports the IMM recommendation to reprice the RTM market using Locational Marginal Prices (LMP) plus Operating Reserve Demand Curve (ORDC) price adder plus revised Real-Time On-Line Reliability Deployment Price Adder (Revised RDPA). Revised RDPA is the RDPA that would have been calculated by the ERCOT systems using current Nodal Protocols for those intervals (likely \$0/MWh for all intervals being considered). This implementation of the recommended repricing ensures that all Loads benefit from the lower repriced energy and not actually increasing the cost for those Load Serving Entities (LSE) that prudently hedged their load in DAM at a price lower than the original RTM prices. Because ERCOT systems are already designed to settle the market in the event of a DAM failure, ERCOT would implement voiding the DAM for both 2/18/21 and 2/19/21 using the DAM failure mechanism.

REASONING BEHIND PETITION

I. Reprice all day-ahead ancillary services clearing prices

As pointed out by the IMM³, ERCOT uses very high penalty costs to ensure that the DAM algorithm can clear as much of the AS Plan as possible and, between February 15 and February 20, the scarcity of offers, generator constraints, and opportunity costs applied during this pricing run resulted in “unexpected” clearing prices higher than the SWCAP in effect on those days. “The IMM recommends that these prices be capped at the SWCAP of \$9,000 per MWh” and that “Capping the AS Market Clearing Prices for Capacity (MCPC) for each AS for those days will produce outcomes more consistent with economic market design principles.”

Even though ERCOT uses the Operating Reserve Demand Curve (ORDC), which is capped at \$9,000/MWh, in the RTM to determine the value of operating reserves, ERCOT currently does not use the ORDC in the DAM as economic market design principles would dictate. This current deficiency in the ERCOT market design is corrected with the implementation of real-time co-optimization (RTC) as specified in ERCOT Board approved nodal protocol revision request

³ See Project. No. 51812, *Issues Related to the State Disaster for the February 2021 Winter Weather Event*, Potomac Economics, Ltd. Letter (Mar. 1, 2021).

(NPRR) 1008, RTC – NP 4: Day Ahead Operations. In Section 4.4.12, Determination of Ancillary Service Demand Curves for the Day-Ahead Market and Real-Time Market, of NPRR1008, the same ORDC used in RTM is also used in DAM to create Ancillary Service Demand Curves (ASDC). Because the highest value of the ORDC is \$9,000/MWh, the highest value of the ASDCs is also \$9,000/MWh. This implies that under RTC, AS prices cannot exceed \$9,000/MWh. The same economic principles dictate that AS prices should not exceed \$9,000/MWh in the current market.

II. Only reprice RTM prices if DAM for the corresponding day is voided

The IMM recommendation on March 4, 2021 was for the Commission to direct ERCOT to correct the real-time prices from 0:00 February 18, 2021, to 09:00 February 19, 2021. However, the financial DAM is intricately tied to and used to hedge exposure to the RTM and thus, if the RTM is repriced, the financial DAM outcomes become inconsistent with RTM and illogical.

Georgetown's power portfolio consists of load of consumers in the city and energy purchases. As any prudent LSE would do, Georgetown purchased its load obligation in DAM at prices reflecting prices at the cap in RTM but still about \$1,000/MWh below RTM prices. By taking such action, Georgetown was able to save its citizens about \$1,000/MWh compared to buying its load obligations in RTM. Given the uncertainty associated with some of the resources in Georgetown's supply portfolio due to icing during the Winter Storm, it was deemed too risky to sell forecasted output of these resources in DAM because, in the event of underperformance, Georgetown would incur additional costs of having to meet its DAM financial commitment with higher priced energy in RTM. As a result, Georgetown sold the output of its resources in the RTM. If the RTM is repriced but the DAM is unchanged, then prudent LSEs such as Georgetown that hedged their load in DAM would be penalized, paying the near-cap DAM prices while receiving significantly reduced payments for their resources in the RTM. This would result in an enormous increase in the cost to Georgetown's consumers—contrary to the intent of this price correction. All LSEs that prudently hedged their load in DAM at exorbitant prices would see no benefit of the price correction but would likely see their costs increased—like Georgetown. The call to reprice the RTM by members of the Texas Senate, the Lieutenant Governor of Texas, and the Governor of Texas was to help LSEs and consumers in ERCOT. Without voiding the DAM for the

corresponding days, the repricing of RTM would result in outcomes contrary to the intent of repricing.

Apart from AS, the DAM is purely a financial market. The voiding of the DAM mostly impacts any gains/losses by financial players and other entities participating in that voluntary market. One of the benefits for resources offering into the DAM is that the resources offer-based costs are made whole in the DAM settlement process in the event that DAM prices are not high enough to recover costs. With the voiding of the DAM, the same principle should apply in that no resource or importer of power into ERCOT should have to provide services at a loss.

Georgetown can support repricing the RTM only if the corresponding DAM is voided. Otherwise, Georgetown is opposed to repricing RTM because it will result in higher costs to LSEs who prudently hedged their load obligations in DAM. Voiding the DAM and repricing RTM for the affected days will ensure the intent of repricing is achieved.

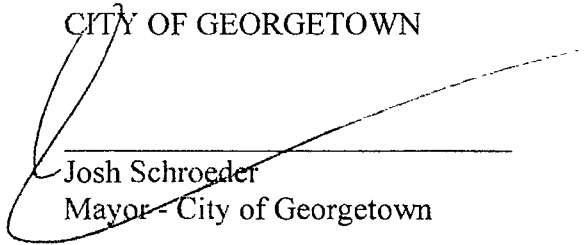
CONCLUSION

The requested actions will help to stabilize the market, reduce the exorbitant cost ultimately paid by consumers, and reduce uplift, which may otherwise place financial burdens that could create additional uplift and added costs to consumers in ERCOT. Georgetown appreciates this opportunity provided by the Commission and respectfully requests that the Commission act immediately on its request.

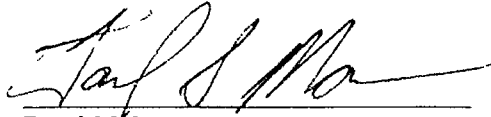
Date: March 10, 2021

Respectfully submitted,

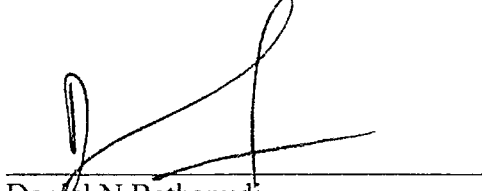
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